

UrbanAmerica Advisors LLC

Recently, **Geoffrey Dobrman**, publisher and editor-in-chief of *The Institutional Real Estate Letter – North America*, spoke with **Richmond McCoy** of UrbanAmerica Advisors LLC and **Robert Chapman** of Behringer Harvard. The following is an excerpt of that conversation.

What is UrbanAmerica Advisors LLC?

McCoy: UrbanAmerica Advisors LLC is a new joint venture formed by the active principals of UrbanAmerica LP and Behringer Harvard to meet the needs of institutional investors in today's marketplace. The institutional marketplace is going through a tremendous amount of stress. Institutional investors are looking for strong executive benches to lead them through the stress and position them for the coming renewal. In addition, investors want more control, which is moving the business toward separate accounts, as well as smaller commingled funds. With the launch of UrbanAmerica Advisors, we have combined the skills and experience of two of the premier firms in the industry to provide investors with what they want — a strong, experienced executive team with the ability to handle separate accounts and focused funds — and grow our investment advisory business and take advantage of a once-in-a-career opportunity.

How did your two firms find each other?

McCoy: It was serendipitous. Tom Kennedy, our CFO and COO, was at the same Orlando conference six months ago as some of the senior management at Behringer Harvard, with whom he had worked at Equitable. They began to talk and found that there was real synergy between the two firms' goals and expertise.



Richmond McCoy is the president and CEO of UrbanAmerica Advisors LLC. In 1998, McCoy founded UrbanAmerica LP, leading the institutional investment community's entry into urban markets. UrbanAmerica LP was one of the country's pioneering investment advisory firms with a focus on acquiring and developing commercial real estate in communities in the urban cores of major metropolitan markets nationally. McCoy spearheaded UrbanAmerica's investment in a portfolio of more than 10 million square feet valued in excess of \$2 billion. He has consummated \$6 billion in real estate transactions during a career that has spanned more than 28 years.



Robert Chapman is executive vice president and co-CEO of Behringer Harvard Holdings LLC. Chapman also serves as president of Behringer Harvard Multi-family REIT I, Inc. Prior to joining Behringer Harvard in September 2007, Chapman was executive vice president and CFO of AMLI Residential Properties Trust, formerly a New York Stock Exchange-listed REIT, from December 1997 to August 2007. Chapman also served as an independent board member and the audit committee chairman of Behringer Harvard Opportunity REIT I, Inc. from March 2005 to August 2007.

It soon became clear that by coming together, Behringer Harvard could accelerate its move into the institutional investment management business, and we could grow and expand our current platform much faster than we could alone. In addition, we could launch the new venture very quickly and seamlessly because there were not existing conflicts of interest. We're going forward as an entity headed by experienced executives and supported by an established infrastructure, but without a lot of baggage or legacy issues from the past couple of years.

UrbanAmerica LP has institutional experience, but what does Behringer Harvard bring to the table?

Chapman: First, we are bringing our entire platform, which is pro-

viding some shared services to help UrbanAmerica Advisors LLC grow more quickly at a much lower cost than if the company had to purchase those services or build the infrastructure on its own. Second, because we have about 250 on-the-ground personnel through our property management company, we're providing general market knowledge and resources if UrbanAmerica Advisors LLC wants to use them. Third, we offered some of our best people with strong institutional experience the opportunity to become full-time employees of the new company. They will work with Richmond's people in order to create a two-plus-two-equals-five scenario. I think both firms will benefit from these synergies. Long-term, we expect that UrbanAmerica Advisors

LLC will grow and at some point may not need the services we provide, and that's fine. We are here to provide the infrastructure and the platforms for as long as Richmond and his team need them to create something better for both parties.

How does that help Behringer Harvard in the long run?

Chapman: We're participating in the ownership of what we think will become one of the most viable and recognizable institutional managers in the business in the years to come. This partnership allows us to achieve our longer-term goals more quickly than we could on our own. Our core business has been raising capital from individual investors through the broker-dealer financial planning network. Since we launched our initial non-listed public REIT offering in early 2003, we have raised about \$4 billion of equity capital and have built an \$8 billion portfolio in a number of funds in the United States and Central and Eastern Europe. Although our fundraising has been concentrated on the broker-dealer network, we also have pursued joint ventures with institutional investors and always expected to expand our

services to the institutional marketplace. The company was started by Robert Behringer, who was with Equitable and had prior institutional experience. His philosophy was to build a team of seasoned experts who had been around for a while and who had significant institutional experience. We now have a strong core organization, and we have

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been interested in trying to leverage that infrastructure for some time. We have done well in our core busi-

ness, but recognize that there are other capital sources that have not historically been our primary target. We decided in late 2008–early 2009 to launch Behringer Harvard Investment Management with the idea of doing exactly what Richmond has talked about, which is to provide advisory services, help institutions solve problems and potentially raise new capital either through separate accounts or new commingled funds as the market improves. We had explored the possibility of teaming with other potential partners, and we had considered entering the institutional area ourselves by building a network that was consistent with our retail market approach. But after having conversations with UrbanAmerica LP, we realized that we could enter the business more quickly and probably less expensively by leveraging UrbanAmerica LP's established presence in the institutional arena. We will continue to pursue a number of institutional initiatives under the Behringer Harvard Investment Management umbrella, particularly in Europe. We see potential synergies between our two organizations, and we could pursue additional initiatives together in the future.

CORPORATE OVERVIEW

UrbanAmerica Advisors LLC is a partnership between institutional investment adviser UrbanAmerica LP and commercial real estate firm Behringer Harvard. The new company, which will be headquartered in the north Dallas area of Addison, Texas, will provide institutional investors with advice and services related to complex real estate investment transactions. Richmond McCoy will oversee the execution of the new platform's business plans.

Founded in 1998, New York City-based UrbanAmerica LP is a registered investment adviser with a distinctive vision for and specialized expertise in urban center real estate investment nationwide. The firm delivers value-added returns to investors, while also stimulating economic impact in its investment locales. Combined with Addison-based Behringer Harvard, the two companies have more than \$10 billion in assets under their advisement services.

About Behringer Harvard

Behringer Harvard creates and manages global institutional-quality investment programs for individual and institutional investors through its real estate investment trusts, joint ventures and proprietary program structures. Behringer Harvard has interests in or manages more than \$8 billion in assets.

CORPORATE CONTACTS

For more information on UrbanAmerica Advisors LLC, please contact:

Richmond McCoy
President and CEO
 212.612.9097 – New York Office
 972.385.6600 – Addison Office
 rmccoy@urbanamericadvisors.com
 UrbanAmerica Advisors LLC
 30 Broad Street, 31st Floor • New York, NY 10004

Jon Dooley
Sr. Managing Director & Co-CIO, Client Advisory Services
 jdooley@urbanamericadvisors.com
 972.385.6600
 UrbanAmerica Advisors LLC
 15601 Dallas Parkway, Suite 600 • Addison Texas 75001

www.urbanamericadvisors.com

How is UrbanAmerica Advisors structured?

McCoy: The partnership is structured to create a seamless integration of the capabilities of both companies, which is expected to provide efficiencies that will benefit both partners and their clients. The partnership will combine the established reputation and strong client relationships of UrbanAmerica LP with Behringer Harvard's comprehensive institutional-quality infrastructure and commercial real estate capabilities. UrbanAmerica LP and Behringer Harvard have a combined total of more than \$10 billion in assets under management and a staff of more than 400 employees. The new venture will be managed by the former UrbanAmerica LP management, but the purpose of the new entity is to go forward without involvement from any of our existing funds or partnerships.

Chapman: Behringer Harvard is making an investment in a new company — it is not a merger between UrbanAmerica LP and Behringer Harvard. Behringer Harvard will be involved strategically and will serve on the board, but the entire daily operation of UrbanAmerica Advisors LLC will be handled by Richmond. Although we will participate in the strategic management of UrbanAmerica Advisors LLC, Richmond and his team will direct investment decisions and manage the funds themselves.

How does this change UrbanAmerica's investment focus?

McCoy: It changes our investment focus dramatically in some ways and in other ways we will remain consistent with our investment philosophy. The change is that we will have an increased capacity to pursue a number of investment strategies on behalf of our clients, including special accounts, commingled funds and advisory services. Our primary investment focus will continue to be in urban markets. We've created two entities: UrbanAmerica Advisors LLC, which will continue to be focused on asset management as well as institutional fund and separate account management; and UrbanAmerica Principals III, which

is the successor to Urban America LP, as an emerging manager and an MBE (minority business entity). UrbanAmerica LP has two pre-existing funds and several partnerships — those will not change. Our future advisory and investment business will be managed by either UrbanAmerica Advisors LLC or UrbanAmerica Principals III, the MBE entity. This will allow our investors and partners to do business with the entity that provides the best fit for their unique requirements.

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What kinds of property will UrbanAmerica Advisors LLC focus on?

McCoy: Historically, Behringer Harvard and UrbanAmerica have both targeted and invested in core, value-added and opportunistic assets. But we see a shift in the marketplace today as the institutional investor increasingly recognizes that real estate is not a thoroughbred — it's more of a trotter. We are now looking to protect equity while generating some level of current yield. That means we are going to continue to focus our core-plus strategy on investing in existing, income-producing urban assets with some level of existing debt, preferably leased to government, university and healthcare entities. We think there is still significant opportunity in the marketplace to acquire high-quality, income-producing property from distressed sellers. We've had great success with the GSA portfolio that we acquired under those circumstances

over a year ago, and we have just renewed over 1.3 million square feet on new 10-year leases.

Are you seeing an interest in this strategy?

McCoy: There certainly continues to be a strong appetite for emerging managers, and capital is available for them. Our historical focus has been to acquire existing income-producing properties with a value-added component. Moreover, the special niche that is our organization's strength has involved properties tenanted by government agencies, healthcare organizations and academic institutions domiciled in the urban core.

Historically, what has Behringer Harvard invested in, and will you be bringing your investment expertise to UrbanAmerica Advisors LLC?

Chapman: We currently sponsor two types of closed-end funds: core and value-added/opportunistic. We have two core funds. One is Behringer Harvard REIT I, Inc., which has invested in institutional-quality office property in central business districts nationwide. That fund is closed, and it now has a portfolio of properties that we are managing for income and future value. The second is a multifamily fund that we started two years ago; it involves a current offering in the public arena. That fund, Behringer Harvard Multifamily REIT I, Inc., is acquiring institutional-quality apartment, student housing and age-restricted properties across the United States. We have sponsored six opportunistic funds. One, Behringer Harvard Opportunity REIT II, Inc., is also a current offering. These funds have wider investment latitude and generally seek more back-end appreciation than current yield. Some of our best people have moved over to work with UrbanAmerica Advisors LLC full-time, so in that sense we will indeed be offering our expertise. We also will serve as a resource for real estate and capital market knowledge. But as a company, Behringer Harvard will not have any direct involvement in individual assets acquired by UrbanAmerica.

Earlier it was mentioned that UrbanAmerica Advisors LLC would be starting fresh, without legacy issues. How are your ongoing funds faring?

Chapman: On the whole, our historical funds are operating with less near-term debt roll-over exposure than others in the industry and, in general, we are in good shape. Overall, the portfolios are performing, and we are generally pleased with them. That doesn't mean we don't have specific issues. As is generally consistent with opportunistic investment strategies, our opportunity funds assumed more risk, but we have been able to restructure deals that later presented issues. Behringer Harvard is a company that is in good financial shape, and we have the ability to manage through these problems. I don't think anybody can say that every transaction that they have done over the past few years has avoided some element of stress. But overall, we are pleased with where we are.

Richmond, the same question.

McCoy: We're faring okay, given current market conditions. We are in the process of liquidating our Fund I, which has about 1 million square feet under management. In Fund II, we stuck with our investment guidelines and let the market soften before we purchased a large GSA portfolio of 3 million square feet in November 2008. Although it had lease risk, we've been able to renew, on a long-term basis, a significant portion of those leases representing 1.3 million square feet, and we are in a solid position. We acquired the majority of our assets at very good prices with long-term debt, so I think we are in good shape to weather this evolving market.

Behringer Harvard is going to continue to operate in retail. How are you going to deal with the issues of who gets what deals?

Chapman: UrbanAmerica Advisors LLC is a totally separate company from Behringer Harvard. We have our own acquisition team, our own deal sourcing. The profiles of the assets that we're looking at are actually quite different with the type of tenant base that UrbanAmerica

UrbanAmerica Advisors LLC Executive Team



Jon Dooley joins UrbanAmerica Advisors LLC as senior managing director and co-CIO for client advisory services. He was most recently executive vice president—real estate at Behringer Harvard. With more than 25 years of commercial real estate experience, Dooley joined Behringer Harvard as an officer in 2004 and served as an independent director of Behringer Harvard REIT I, Inc. from June 2002 to May 2003. In 2002, he served as a senior vice president with Trammell Crow Company. For 13 years prior to joining Trammell Crow Company, Dooley held various senior management positions with Lend Lease Real Estate Investments, Inc. and Equitable Real Estate Investment Management, Inc.



Thomas Kennedy will serve as chief financial officer and chief operating officer for UrbanAmerica Advisors LLC. He joined UrbanAmerica LP in March 2008, bringing with him 25 years of in-depth experience managing large diversified real estate portfolios with complicated ownership structures. As the principal managing director for Equitable Real Estate (and its successor Lend Lease), the country's largest pension adviser with over \$40 billion in assets under management, Kennedy managed \$5 billion in equities and \$5 billion in mortgages. During his 21-year tenure there, he was a member of both the Investment Committee and the Executive Committee utilizing his expertise across all asset classes to advise the direction and activities of an equity portfolio. After his time at Equitable, Kennedy managed the U.S. interests of the Rubicon American Trust, a \$1.5 billion publicly traded REIT on the Australian Exchange with all investments located in the United States.



Edward Scott, who will serve as co-CIO for UrbanAmerica Advisors LLC, has been with UrbanAmerica LP since 2000. He was responsible for development and also served as deputy general counsel. Scott has 20 years of experience, shared equally between the public and private sector, and spanning leasing, acquisitions, development and construction management. Previously, he served as deputy director of the Office of Property Management for the District of Columbia, and was responsible for operating 6 million square feet of leased and owned properties. He also served as assistant commissioner for acquisitions for New York City, where he managed the leasing of 21 million square feet of space.

typically works with and that will continue. We are a separate group with separate strategies and separate business sources. I don't see any conflict of interest coming up in that regard. That being said, there may be some deals that are big enough and creative enough to attract the participation of one of Behringer Harvard's private REIT platforms. It's not in the current business plan, but it could happen.

Finally, what can UrbanAmerica Advisors LLC offer investors that other firms can't?

McCoy: With this platform, we will enjoy the efficiency of operating with an entity that has \$10 billion of assets

under management and access to a large and well-established infrastructure that involves institutional-quality reporting, accounting, tax filing and other asset management functions. That will position us to be able to offer our future investment clients a more cost-effective investment structure. Having access to Behringer Harvard's market knowledge and to the depth and maturity of its management team is going to be extremely valuable. In today's environment, being able to provide the skills of a mature management team, along with proprietary market information — all in a cost-efficient structure — is going to be very important to institutional investors. ♦